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RR RUEHWEB

DE RUEHBO #3848/01 2961619
ZNR UUUUU ZZH
R 221619Z OCT 08
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC 5176
INFO RUEHBR/AMEMBASSY BRASILIA 8446
RUEHPE/AMEMBASSY LIMA 6672
RUEHCV/AMEMBASSY CARACAS 1214
RUEHQT/AMEMBASSY QUITO 7362
RUEHLP/AMEMBASSY LA PAZ OCT PANAMA 2534
RUEHRI/AMCONSUL RIO DE JANEIRO 0127
RUEHSO/AMCONSUL SAO PAULO 2344

UNCLAS BOGOTA 003848

SENSITIVE
SIPDIS

WHA/EPSC FOR FCORNEILLE; WHA/AND FOR RMERRIN; EEB/ESC FOR
MMCMANUS

E.O. 12958: N/A

TAGS: [ENRG](#) [EINV](#) [ECON](#) [PGOV](#) [CO](#)

SUBJECT: ECOPETROL TO EXPAND COOPERATION WITH PETROBRAS

REF: BOGOTA 570

¶1. (SBU) SUMMARY. Reinforcing its growing international focus, Colombia's state-owned hydrocarbons company Ecopetrol has agreed to increase cooperation with Brazil's parastatal Petrobras. The companies recently announced they will jointly cooperate in exploration in Colombia and Brazil, block offerings in third countries, and downstream businesses including refining, petrochemicals and biofuels. While the companies have not yet dedicated specific resources to the plan, Colombia-based representatives of both firms told us the agreement represents a strategic step in cooperation between two market-oriented state companies and will provide Colombia new investment and capacity to complete Ecopetrol's transition into a major regional hydrocarbons firm. END SUMMARY.

A New Era

¶2. (U) On October 13 in Rio de Janeiro, Ecopetrol President Javier Gutierrez and Petrobras President Sergio Gabrielli signed a memorandum of understanding which expressed the firms' intent to expand coordinated exploration activities in oil and gas blocks already in operation, as well as participate in joint bids on block offerings in Brazil, Colombia and third countries. In addition to increased upstream cooperation, Gutierrez and Gabrielli agreed that Ecopetrol and Petrobras will seek out opportunities for downstream joint ventures in refining, distribution and petrochemical production. Recognizing Brazil and Colombia's regional leadership in biofuels, the firms also intend to cooperate in biofuels blending and distribution.

¶3. (SBU) No specific amounts or investment projects were announced as part of the signing, but Petrobras Colombia President Abilio Ramos told Econoff that the agreement nevertheless represented a important step in building a strategic relationship between Petrobras and Ecopetrol. While Petrobras began operating in Colombia in 1972, Ramos noted that the relationship remained relatively limited until the joint discovery of the Guando field in 2000. Since then, Ecopetrol and Petrobras have expanded their cooperation in specific projects and blocks including exploration offshore of Colombia and Brazil. Ramos described the latest agreement as the first time the firms have agreed to broadly cooperate across the whole hydrocarbon commercial chain.

Following in Petrobras' Footsteps

4, (SBU) Ecopetrol Vice President for Strategy and Growth Alvaro Vargas echoed the assessment, saying his firm has increasingly looked toward Petrobras as a model in adopting market-oriented practices and expanding its strategic business vision beyond national borders. Vargas noted that Ecopetrol, which accounts for approximately 60 percent of Colombian national oil production, expects much of its future production growth to shift outside Colombian borders. Ecopetrol previously announced that it will invest a large portion of the capital generated in the 2007 privatization of ten percent of the company in international exploration ventures (reftel).

15. (SBU) Ramos told Econoff that Petrobras, which plans to invest USD 361 million in its existing Colombian operations between 2008 and 2012, is well-positioned to help Ecopetrol become a full-scale oil and gas operator, including offshore.

Ramos characterized Ecopetrol as a company in transition from a former regulator operating in a non-competitive environment to a dynamic, market-oriented firm with the potential to operate sophisticated fields without joint venture partners. To complete the transition, Ramos said Ecopetrol must build its technical capacity through closer collaboration with major international firms. He cited Ecopetrol's joint venture with Petrobras and ExxonMobil in the offshore Tayrona block, where exploratory drilling is underway, as the example Ecopetrol must follow to reach the next level.

Comment

16. (SBU) Given that details are vague and no specific resources have been dedicated, the long-term impact of the Ecopetrol-Petrobras agreement remains unclear. Nevertheless, it represents a further step, along with Ecopetrol's September listing on the New York Stock Exchange, away from the model of a statist, internally-focused company and toward an outward-looking firm eager to cooperate with major international players. Such focus and access to technical capacity are key if Ecopetrol is to permanently reverse the slide in domestic oil production since 1999 and preserve Colombia's net oil exporter status beyond 2015.

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